LIM 368 Local Municipality
Financial statements
for the period 11 August 2016 to 30 June 2017

## General Information

| | |
|---|---|
| **Legal form of entity** | Local Municipality |
| **Nature of business and principal activities** | LIM 368 Local Municipality was established in terms of Section 12 of the Municipal Structures Act (112 of 1998). Refer to Merger note 44. The establishment notice provides for the services that the municipality is obliged to render. These include basic services such as provision of electricity, water services and sanitation. The notice provides the total list of all services and competencies. |
| **Members of Council** | |
| Mayor | Cllr. M van Staden |
| Speaker | Cllr. JJ Abrie |
| Chief Whip | Cllr. DS Motswene |
| Member of Executive Committee | Cllr. LW Kola |
| | Cllr. RP Mashaba |
| | Cllr. NG Mashitisho |
| | Cllr. LW Monyela |
| Councillors | Cllr. J Baloyi |
| | Cllr. CMJ Botha |
| | Cllr. RS Chauke |
| | Cllr. S Groenewald |
| | Cllr. KE Lekalakala |
| | Cllr. JM Lebese |
| | Cllr. HP Louw |
| | Cllr. KN Mabunda |
| | Cllr. RJ Mahoro |
| | Cllr. BS Marema |
| | Cllr. B Mocke |
| | Cllr. NE Monepya |
| | Cllr. DM Monama |
| | Cllr. NS Monyamane |
| | Cllr. LK Moruwe |
| | Cllr. MM Mothabela |
| | Cllr. D Phalane |
| | Cllr. MD Phele |
| | Cllr. JP Prinsloo (from 29 Sept 2016) |
| | Cllr. MS Seodisa |
| | Cllr. MM Sethlabi |
| | Cllr. SE Khenosi (Resigned 01 May 2017) |
| | Cllr. KH Niewenhuis (Re-assigned to WDM 29 Sept 2016) |
| **Grading of local authority** | 3 |
| **Accounting Officer** | Mr. OP Sebola |
| **Acting Chief Finance Officer (CFO)** | Mr. MM Lekalakala |
| **Registered office** | Harry Gwala Street<br>OR Tambo Square<br>Modimolle<br>0510 |
| **Business address** | Harry Gwala Street |

## General Information

| | |
|---|---|
| | OR Tambo Square<br>Modimolle<br>0510 |
| **Postal address** | Private Bag X 1008<br>Modimolle<br>0510 |
| **Bankers** | Standard Bank |
| **Auditors** | Auditor General |
| **Audit Committee** | Mr. SBA Ngobeni (Chairperson - Modimolle)<br>Mr. S Mofokeng (Chairperson - Mookgophong)<br>Mr. PS Ramalepe<br>Mr. MA Mashego<br>Mr. T Gafane<br>Mr. SJ Masite<br>Mr. X Nxumalo |

# Index

The reports and statements set out below comprise the financial statements presented to the provincial legislature:


| Index | Page |
|---|---|
| Accounting Officer's Responsibilities and Approval | 4 |
| Accounting Officer's Report | 5 - 6 |
| Statement of Financial Position | 7 - 8 |
| Statement of Financial Performance | 9 |
| Statement of Changes in Net Assets | 10 |
| Cash Flow Statement | 11 |
| Statement of Comparison of Budget and Actual Amounts | 12 - 13 |
| Accounting Policies | 14 - 36 |
| Notes to the Financial Statements | 36 - 77 |


**Abbreviations**

| | |
|---|---|
| GRAP | Generally Recognised Accounting Practice |
| HDF | Housing Development Fund |
| DBSA | Development Bank of South Africa |
| INEG | Integrated National Electrification Programme Grant |
| GRAP | Generally Recognised Accounting Practice |
| HDF | Housing Development Fund |
| EAP | Employee Assistance Program |
| IPSAS | International Public Sector Accounting Standards |
| UIF | Unemployment Insurance Fund |
| MEC | Member of the Executive Council |
| MFMA | Municipal Finance Management Act |
| MIG | Municipal Infrastructure Grant (Previously CMIP) |
| VAT | Value Added Tax |
| EXCO | Member of the Executive Council |
| SARS | South African Revenue Services |

## Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and was given unrestricted access to all financial records and related data.

The financial statements have been prepared in accordance with the South Africa Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's senior managers.

The external auditors are responsible for independently reviewing and reporting on the municipality's financial statements.

The financial statements set out on pages 5 to 77, which have been prepared on the going concern basis, were approved by the accounting officer on 14 November 2017 and were signed on its behalf by:

**Accounting Officer**
**OP Sebola**

# Accounting Officer's Report

The accounting officer submits his report for the period ended 30 June 2017.

## 1. Review of activities

### Main business and operations

Net deficit of the municipality was R 20,708,733.

## 2. Going concern

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

## 3. Subsequent events

The accounting officer is not aware of of any subsequent event, matters or circumstance arising after reporting date which may negatively impact on the annual financial statements.

## 4. Submission of annual financial statements

The financial statements were submitted on 2 November 2017. The municipality did not complied with the requirements of section 126 of the Municipal Finance Management Act.

## 5. Accounting policies

The financial statements were prepared in accordance with the Generally Recognised Accounting Practice (GRAP), including any interpretations of such Statements issued by the Accounting Standards Board.

## 6. Corporate governance

### General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer strives to support the highest standards of corporate governance and the ongoing development of best practice.

### Municipal Council

The Council:
- retains full control over the municipality, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the municipality;

### Remuneration

The remuneration of the Accounting Officer and managers directly accountable to the Accounting Officer are determined by the Municipal Systems Act - Total Remuneration Packages payable to Municipal Manager and managers directly accountable to the Municipal Manager.

### Executive meetings

The Executive Committee of Council holds its meetings monthly. Its meetings are preceded by Management meetings attended by senior managers.

## Accounting Officer's Report

**Audit and risk committee**

In terms of Section 166 of the Municipal Finance Management Act, the municipality, must appoint members of the Audit Committee. National Treasury policy requires that municipalities should appoint further members of the audit committees who are not councillors of the municipality onto the audit committee.

For the financial period under review, the chairpersons of the audit committee was Mr SAB Ngobeni (Modimolle) and Mr S Mofokeng ( Mookgophong), who are independent audit committee members. Other members of the Committee are: Mr. PS Ramalepe, Mr. MA Mashego, Mr. T Gafane, Mr. SJ Masite and Mr X Nxumalo.

**Internal audit**

The municipality has its own internal audit function. This is in compliance with the Municipal Finance Management Act, 2003

The Head Internal Auditor is Mr. D Matsetela.

**7. Bankers**

The Municipality's primary bank account is with Standard Bank.

**8. Auditors**

Auditor General will continue to audit the next financial period.

**9. Fruitless and Wastefull Expenditure**

During the current financial year payments to the value of R28,010,002 were regarded as fruitless and wastefull expenditure. This is due to the following late payments to:

| | |
|---|---|
| - Eskom | R27,422,720 |
| - Telkom | R 4,682 |
| - Magalies Water | R 398.753 |
| - SARS | R 273.847 |

Also refer to Note 48.

## Statement of Financial Position as at 30 June 2017

| Figures in Rand | Note(s) | 30 June 2017 |
|---|---|---|
| **Assets** | | |
| Current Assets | | |
| Inventories | 11 | 5,299,794 |
| Receivables from exchange transactions | 13 | 7,392,778 |
| Receivables from non-exchange transactions | 15 | - |
| VAT receivable | 16 | 14,020,397 |
| Prepayments | 8 | 1,468,139 |
| Consumer debtors | 14 | 212,363,764 |
| Investments | 9 | 900,000 |
| Other Receivables | 10 | 372,363 |
| Cash and cash equivalents | 12 | 11,460,157 |
| | | **253,277,392** |
| Non-Current Assets | | |
| Investment property | 4 | 17,206,951 |
| Property, plant and equipment | 5 | 1,345,184,781 |
| Intangible assets | 6 | 2,666,407 |
| Heritage assets | 7 | 181,347 |
| Investments | 9 | 128,415 |
| | | **1,365,367,901** |
| Non-Current Assets | | 1,365,367,901 |
| Current Assets | | 253,277,392 |
| **Total Assets** | | **1,618,645,293** |
| **Liabilities** | | |
| Current Liabilities | | |
| Other financial liabilities | 18 | 150,995 |
| Finance lease obligation | 20 | 2,758,369 |
| Payables from exchange transactions | 23 | 204,762,374 |
| Consumer deposits | 25 | 7,331,770 |
| Employee benefit obligation | 19 | 1,595,831 |
| Unspent conditional grants and receipts | 21 | 18,790,274 |
| Provisions | 22 | 1,469,734 |
| Bank overdraft | 12 | 154,953,419 |
| | | **391,812,766** |
| Non-Current Liabilities | | |
| Finance lease obligation | 20 | 667,137 |
| Employee benefit obligation | 19 | 37,346,699 |
| Provisions | 22 | 71,154,558 |
| | | **109,168,394** |
| Non-Current Liabilities | | 109,168,394 |
| Current Liabilities | | 391,812,766 |
| **Total Liabilities** | | **500,981,160** |
| Assets | | 1,618,645,293 |
| Liabilities | | (500,981,160) |
| **Net Assets** | | **1,117,664,133** |

## Statement of Financial Position as at 30 June 2017

| Figures in Rand | Note(s) | 30 June 2017 |
| --- | --- | --- |
| Reserves | | |
| Housing Development Fund | 17 | 483,263 |
| Accumulated surplus | | 1,117,180,870 |
| **Total Net Assets** | | **1,117,664,133** |

# LIM 368 Local Municipality

(Registration number LIM 368)
Financial Statements for the period ended 30 June 2017

## Statement of Financial Performance

| Figures in Rand | Note(s) | 30 June 2017 |
|---|---|---|
| **Revenue** | | |
| **Revenue from exchange transactions** | | |
| Service charges | 28 | 193,671,247 |
| Interest received - Trade debtors | | 24,607,829 |
| Rental income | | 246,968 |
| Fair Value of Shares | | 9,326 |
| Fire Fighting income | | 1,394,868 |
| Sundry income | 31 | 3,614,933 |
| Interest received - investment | 39 | 2,695,989 |
| **Total revenue from exchange transactions** | | **226,241,160** |
| **Revenue from non-exchange transactions** | | |
| **Taxation revenue** | | |
| Property rates | 27 | 55,978,716 |
| Licences or Permits | | 2,292,448 |
| **Transfer revenue** | | |
| Government grants & subsidies | 29 | 173,701,354 |
| Traffic fines | | 399,628 |
| **Total revenue from non-exchange transactions** | | **232,372,146** |
| | | 226,241,160 |
| | | 232,372,146 |
| **Total revenue** | 26 | **458,613,306** |
| **Expenditure** | | |
| Employee Related Costs | 33 | (159,053,099) |
| Remuneration of councillors | 34 | (11,979,527) |
| Actuarial gain/(loss) | 35 | 15,935,950 |
| Depreciation and amortisation | 36 | (51,400,543) |
| Impairment loss/ Reversal of impairments | | (1,836,339) |
| Finance costs | 37 | (5,373,153) |
| Debt Impairment | 38 | (37,150,142) |
| Repairs and maintenance | | (20,680,802) |
| Bulk purchases | 42 | (142,636,822) |
| Contracted services | 41 | (15,881,272) |
| General Expenses | 32 | (49,266,290) |
| **Total expenditure** | | **(479,322,039)** |
| | | - |
| Total revenue | | 458,613,306 |
| Total expenditure | | (479,322,039) |
| **Operating deficit** | | **(20,708,733)** |
| Operating surplus/deficit | | - |
| Deficit before taxation | | (20,708,733) |
| Taxation | | - |
| **Deficit for the period** | | **(20,708,733)** |

# Statement of Changes in Net Assets

| Figures in Rand | Housing Development Fund | Accumulated surplus | Total net assets |
|---|---|---|---|
| Opening balance as previously reported | 483,263 | 1,119,159,240 | 1,119,642,503 |
| Adjustments | | | |
| Adjustments to merger balances | - | (168,932) | (168,932) |
| **Balance at 11 August 2016** | **483,263** | **1,118,990,308** | **1,119,473,571** |
| Changes in net assets | | | |
| Assets prior period adjustments | - | 25,245,258 | 25,245,258 |
| Other prior period adjustments | - | (6,345,963) | (6,345,963) |
| Net income (losses) recognised directly in net assets | - | 18,899,295 | 18,899,295 |
| Deficit for the period | - | (20,708,733) | (20,708,733) |
| Total recognised income and expenses for the period | - | (1,809,438) | (1,809,438) |
| Total changes | - | (1,809,438) | (1,809,438) |
| **Balance at 30 June 2017** | **483,263** | **1,117,180,870** | **1,117,664,133** |
| Note(s) | 17 | | |

## Cash Flow Statement

| Figures in Rand | Note(s) | 30 June 2017 |
|---|---|---|
| **Cash flows from operating activities** | | |
| **Receipts** | | |
| Services rendered | | 190,688,204 |
| Grants | | 165,319,849 |
| Interest income | | 2,695,989 |
| Other receipts | | 6,302,535 |
| Interest Earned - Outstanding Receivables | | 24,607,829 |
| | | 389,614,406 |
| **Payments** | | |
| Employee costs | | (171,032,626) |
| Finance costs | | (492,299) |
| Other payments | | (301,681,597) |
| | | (473,206,522) |
| Total receipts | | 389,614,406 |
| Total payments | | (473,206,522) |
| **Net cash flows from operating activities** | 43 | **(83,592,116)** |
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment | 5 | (96,004,675) |
| Movement of investments | | (9,326) |
| Movement in employee obligations | | - |
| **Net cash flows from investing activities** | | **(96,014,001)** |
| **Cash flows from financing activities** | | |
| Repayment of other financial liabilities | | (276,855) |
| Movement in employee obligations | | (476,448) |
| Finance lease payments | | (1,656,461) |
| **Net cash flows from financing activities** | | **(2,409,764)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **(182,015,881)** |
| Cash and cash equivalents at the beginning of the year | | 38,522,617 |
| **Cash and cash equivalents at the end of the year** | 12 | **(143,493,262)** |

# Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Statement of Financial Performance** | | | | | | |
| **Revenue** | | | | | | |
| **Revenue by source** | | | | | | |
| Property rates | 58,982,400 | (5,333,112) | **53,649,288** | 55,978,716 | **2,329,428** | Variance less than 10%. |
| Service charges | 258,258,996 | (57,135,600) | **201,123,396** | 193,671,247 | **(7,452,149)** | Variance less than 10% |
| Investment revenue | 640,000 | 1,892,000 | **2,532,000** | 2,695,989 | **163,989** | Variance less than 10% |
| Transfers recognised - operational | 113,885,000 | (9,196,800) | **104,688,200** | 89,412,201 | **(15,275,999)** | Note 1 |
| Other own revenue | 31,740,000 | 5,218,000 | **36,958,000** | 32,566,000 | **(4,392,000)** | Note 2 |
| **Total Revenue (excluding capital transfers and contributions)** | **463,506,396** | **(64,555,512)** | **398,950,884** | **374,324,153** | **(24,626,731)** | |
| **Expenditure by type** | | | | | | |
| Employee costs | (178,359,000) | 22,134,000 | **(156,225,000)** | (159,627,115) | **(3,402,115)** | Variance less than 10% |
| Remuneration of councillors | (13,056,000) | 1,350,000 | **(11,706,000)** | (11,979,527) | **(273,527)** | Variance less than 10% |
| Debt impairment | (24,690,000) | 1,979,000 | **(22,711,000)** | (37,150,142) | **(14,439,142)** | Note 3 |
| Depreciation & asset impairment | (73,988,000) | 3,943,000 | **(70,045,000)** | (53,236,882) | **16,808,118** | Note 4 |
| Finance charges | (11,113,000) | (12,917,000) | **(24,030,000)** | (5,373,153) | **18,656,847** | Note 5 |
| Materials and bulk purchases | (185,132,000) | 18,803,000 | **(166,329,000)** | (142,636,822) | **23,692,178** | Note 6 |
| Other expenditure | (68,548,000) | (8,422,000) | **(76,970,000)** | (69,892,414) | **7,077,586** | Note 7 |
| **Total expenditure** | **(554,886,000)** | **26,870,000** | **(528,016,000)** | **(479,896,055)** | **48,119,945** | |
| Revenue | 463,506,396 | (64,555,512) | **398,950,884** | 374,324,153 | **(24,626,731)** | |
| Expenditure | (554,886,000) | 26,870,000 | **(528,016,000)** | (479,896,055) | **48,119,945** | |
| Other | - | - | **-** | - | **-** | |
| **Surplus/(Deficit)** | **(91,379,604)** | **(37,685,512)** | **(129,065,116)** | **(105,571,902)** | **23,493,214** | |
| Transfers recognised - capital | - | - | **-** | 95,419,521 | **95,419,521** | |
| **Surplus/(Deficit) after capital transfers & contributions** | **(91,379,604)** | **(37,685,512)** | **(129,065,116)** | **(10,152,381)** | **118,912,735** | |
| **Surplus/(Deficit) for the year** | **(91,379,604)** | **(37,685,512)** | **(129,065,116)** | **(10,152,381)** | **118,912,735** | |

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|

**Note 1:**

Transfer recognised for operational was less than anticipated due to the operational programs not fully implemeted.

**Note 2:**

Other revenue was less than anticipated due to revenue not received as anticipated.

**Note 3:**

Debt impairment was less than anticipated during budget preparation process..

**Note 4:**

Depreciation & Impairment was more than anticipated during budget preparation.

**Note 5:**

The finance charges went above the anticipated budget due to late payment of creditors.

**Note 6:**

Due to cashflow challenges, the actual expenditure incurred for materials and bulk purchases was less than anticipated.

**Note 7:**

Other expenditure has under spent due to cashflow challenges of the municipality.

The accounting policies on pages 14 to 36 and the notes on pages 36 to 77 form an integral part of the financial statements.

# Accounting Policies

### 1. Presentation of Financial Statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these financial statements, are disclosed below.

### 1.1 Presentation currency

These financial statements are presented in South African Rand, which is the functional currency of the municipality.

### 1.2 Going concern assumption

These financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

### 1.3 Mergers

**Definitions**

Carrying amount of an asset or liability is the amount at which an asset or liability is recognised in the statement of financial position.

Combined municipality is a new reporting entity formed from the combination of two or more entities.

Combining entities are the entities that are combined for the mutual sharing of risks and benefits in a merger.

Control is the power to govern the financial and operating policies of another municipality so as to benefit from its activities.

A merger is the establishment of a new combined municipality in which none of the former entities obtain control over any other and no acquirer can be identified.

Merger date is the date on which entities are combined for the mutual sharing of risks and benefits and when the assets and liabilities are transferred to the combined municipality.

A transfer of functions is the reorganisation and/or the re-allocation of functions between entities by transferring functions between entities or into another municipality.

A merger is the establishment of a new combined municipality in which none of the former entities obtains control over any other and no acquirer can be identified. As no acquirer can be identified, a merger does not result in an municipality having or obtaining control over any of the entities that are involved in the transaction or event, as the combining entities are not controlled entities of each other, either before or after the merger.

**Identifying the combined entity and combining entities**

For each merger a combined municipality and combining entities is identified. All relevant facts and circumstances are considered in identifying the combined municipality and combining municipality.

The binding arrangement usually sets out which entities are to be combined as a result of the merger, and identifies the new reporting municipality after the merger.

**Determining the merger date**

The combined municipality and the combining entities identify the merger date, which is the date on which the new reporting municipality obtains control of the assets and liabilities and the combining entities loses control of their assets and liabilities.

All relevant facts and circumstances are considered in identifying the merger date.

### 1.3 Mergers (continued)

**Assets acquired [transferred] and liabilities assumed [derecognised]**

The recognition of assets and liabilities by the entity as combined entity are subject to the following conditions:

The assets and liabilities that qualify for recognition in a merger are part of what had been agreed in terms of the binding arrangement, rather than the result of separate transactions.

**Other criteria for the entity (as the combined entity)**

The assets and liabilities that quality for recognition as set out in the binding arrangement meets the definitions of assets and liabilities in the Framework for the Preparation and Presentation of Financial Statements and the recognition criteria in the applicable Standards of GRAP at the merger date.

Costs that the entity expects but which the municipality is not obliged to incur in the future to effect its plan to exit an activity of the combining entities or to terminate the employment of, or relocate the combining entities' employees, is not be accounted for as part of the liabilities at the merger date. The entity does not recognise those costs as part of a merger. Instead, the municipality recognises these costs in its financial statements after the merger has occurred, in accordance with the applicable Standards of GRAP.

### 1.4 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

**Trade receivables and receivables**

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to debtors balances in the portfolio and scaled to the estimated loss emergence period.

**Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 22 - Provisions.

**Post retirement benefits**

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 19.

### 1.4 Significant judgements and sources of estimation uncertainty (continued)

**Allowance for doubtful debts**

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows in terms of GRAP 104.61 - 63.

### 1.5 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

### 1.6 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

### 1.6 Property, plant and equipment (continued)

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

| Item | Depreciation method | Average useful life |
|---|---|---|
| Buildings | Straight line | 5-80 |
| Operational Buildings | Straight line | 5-80 |
| Plant and machinery | Straight line | 2-15 |
| Furniture and fixtures | Straight line | 7-10 |
| General Motor vehicles | Straight line | 5-20 |
| Office equipment | Straight line | 3-10 |
| Housing | Straight line | 5-80 |
| Community Facility | Straight line | 7-100 |
| Sport and Recreational | Straight line | 7-100 |
| Bins and containers | Straight line | 3-10 |
| Emergency equipment | Straight line | 3-7 |
| Electricity network | Straight line | 4-100 |
| Road and storm water network | Straight line | 4-100 |
| Wastewater network | Straight line | 4-100 |
| Water network | Straight line | 4-100 |
| Other - Watercraft | Straight line | 10-15 |
| Other - Aircraft | Straight line | 10-15 |

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require themunicipality to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

### 1.6 Property, plant and equipment (continued)

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

### 1.7 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from an municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the municipality intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management’s best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

### 1.7 Intangible assets (continued)

| Item | Useful life |
|---|---|
| Electrical Servitudes | indefinite |
| Water Servitudes | indefinite |
| Sanitation Servitudes | indefinite |
| Storm Water Servitudes | indefinite |
| Computer software, other | 3 years |

### 1.8 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

**Recognition**

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

**Initial measurement**

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

### 1.8 Heritage assets (continued)

**Subsequent measurement**

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

**Impairment**

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

**Transfers**

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

### 1.9 Financial instruments

**Classification**

The entity classifies financial assets and financial liabilities into the following categories:

- Investment
- Cash and cash equivalents
- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition.

**Initial recognition and measurement**

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

**Subsequent measurement**

Loans, receivables and investments  are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

# Accounting Policies

### 1.9 Financial instruments (continued)

**Receivables from exchange transactions**

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

**Payables from exchange transactions**

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

**Bank overdraft and borrowings**

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality’s accounting policy for borrowing costs.

**Receivables from non-exchange transactions**

Receivables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method.

**Held to maturity**

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the investment’s carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment’s recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the municipality has the positive intention and ability to hold to maturity are classified as held to maturity.

### 1.9 Financial instruments (continued)

**Gains and losses**

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognised in surplus or deficit;
- A gain or loss on an available-for-sale financial asset is recognised directly in net assets, through the statement of changes in net assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in net assets is recognised in surplus or deficit; and
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

### 1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

**Finance leases - lessor**

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality’s net investment in the finance lease.

**Finance leases - lessee**

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

**Operating leases - lessor**

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

## Accounting Policies

**1.10 Leases (continued)**

**Operating leases - lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

**1.11 Inventories**

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

**1.12 Impairment of cash-generating assets**

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented municipality.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

### 1.12 Impairment of cash-generating assets (continued)

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

**Recognition and measurement (individual asset)**

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

**Reversal of impairment loss**

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

### 1.12 Impairment of cash-generating assets (continued)

**Redesignation**

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

### 1.13 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented municipality.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

**Identification**

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

### 1.13 Impairment of non-cash-generating assets (continued)

**Recognition and measurement**

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

**Reversal of an impairment loss**

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

**Redesignation**

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

### 1.14 Accumulated surplus / (deficit)

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

### 1.15 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Termination benefits are employee benefits payable as a result of either:
- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

**1.15 Employee benefits (continued)**

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

**Short-term employee benefits**

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.  The entity measure the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

**Post-employment benefits**

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one municipality, on the basis that contribution and benefit levels are determined without regard to the idmunicipality of the municipality that employs the employees concerned.

## Accounting Policies

**1.15 Employee benefits (continued)**

**Post-employment benefits: Defined benefit plans**

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the municipality recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The municipality account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

### 1.15 Employee benefits (continued)

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

### 1.15 Employee benefits (continued)

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

#### Termination benefits

The entity recognises termination benefits as a liability and an expense when the municipality is demonstrably committed to either:
- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the municipality has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:
- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

### 1.16 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

### 1.17 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 45.

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the municipality. The cost for each employee is computed at each reporting date based on the probability of being employed at each service award date, taking into account the assumed rates of waithdrawal, early retirement and death. On determining this liability due allowance is made for future salary increases. Actuarial gains and losses are recognised in full in theyear they are incurred.The municipality's net obligation in respect of long service awards is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value.

**Decommissioning, restoration and similar liability**

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.12 and 1.13.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

### 1.18 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

**Measurement**

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

**Sale of goods**

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from the sale of prepaid electricity is recognised from the point of sale. It is estimated that prepaid electricity is consumed within nine (9) days after purchase, due to system limitations which does not allow the municipality an option to draw a report on actuals on the prepaid meters of consumers. Prepaid electricity sold but presumed to be unused at year-end is disclosed as payables from exchange transaction.

**Rendering of services**

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

# Accounting Policies

### 1.18 Revenue from exchange transactions (continued)

**Interest, royalties and dividends**

Revenue arising from the use by others of municipality assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

### 1.19 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another municipality in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

### 1.19 Revenue from non-exchange transactions (continued)

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

**Recognition**

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

**Measurement**

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

**Transfers**

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

**Fines**

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting municipality.

### 1.20 Borrowing costs

Borrowing costs are interest and other expenses incurred by an municipality in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.21 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current period.

### 1.22 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

### 1.22 Unauthorised expenditure (continued)

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the period that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.23 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the period that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.24 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

### 1.25 Housing development fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

### 1.26 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

### 1.27 Conditional grants and receipts

Revenue received from conditional grants, donations and funding is recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

### 1.28 Budget information

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by a municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget covers the fiscal period from 11/08/2016 to 30/06/2017.

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

The Statement of comparative and actual information has been included in the financial statements as the recommended disclosure when the financial statements and the budget are on the same basis of accounting as determined by National Treasury.

### 1.29 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed.

### 1.30 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

## Notes to the Financial Statements

| Figures in Rand | 2017 |
|---|---|

### 2. Changes in accounting policy

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior period except for the adoption of the new or revised standards.

| | |
|---|---|
| • GRAP 1 | Presentation of Financial Statements |
| • GRAP 2 | Cash Flow Statements |
| • GRAP 3 | Accounting Policies, Changes in Accounting |
| • GRAP 4 | The effects of Changes in Foreign Exchange rates |
| • GRAP 5 | Borrowing cost |
| • GRAP 6 | Consolidated and Seperate Financial Statements |
| • GRAP 7 | Investments in Associates |
| • GRAP 8 | Interest in Joint Ventures |
| • GRAP 9 | Revenue from Exchange transactions |
| • GRAP 10 | Financial Reporting in Hyperinflationary Economies |
| • GRAP 11 | Construction contracts |
| • GRAP 12 | Inventories |
| • GRAP 13 | Leases |
| • GRAP 14 | Event After the Reporting Date |
| • GRAP 16 | Investment Property |
| • GRAP 17 | Property, Plant and Equipment |
| • GRAP 19 | Provisions, Contingent Liabilities and Contingent Assets |
| • GRAP 21 | Impairment of non-cash-generating assets |
| • GRAP 23 | Revenue from non-exchange transactions |
| GRAP 24 | Presentation of Budget information in Financial Statements |
| GRAP 25 | Employee benefits |
| • GRAP 26 | Impairment of cash-generating assets |
| • GRAP 27 | Agriculture |
| • GRAP 31 | Intangible assets |
| • GRAP 100 | Non-current Assets Held for Sale and Discontinue Operations |
| • GRAP 103 | Heritage Assets |
| • GRAP 104 | Financial Instruments |
| GRAP 105 | Transfers of functions between entities under common control |
| GRAP 106 | Transfers of functions between entities not under common control |
| GRAP 107 | Mergers |

### 3. New standards and interpretations

#### 3.1 Standards and interpretations effective and adopted in the current period

In the current period, the municipality has adopted the following standards and interpretations that are effective for the current financial period and that are relevant to its operations:

#### 3.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2017 or later periods:

**GRAP 18: Segment Reporting**

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality’s overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

# Notes to the Financial Statements

**3. New standards and interpretations (continued)**

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have no been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

**GRAP 20: Related parties**

The objective of this standard is to ensure that a reporting entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.

# Notes to the Financial Statements

**3. New standards and interpretations (continued)**

- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

**GRAP 32: Service Concession Arrangements: Grantor**

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

**GRAP 108: Statutory Receivables**

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

## Notes to the Financial Statements

**3. New standards and interpretations (continued)**

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

**IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset**

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

**GRAP 109: Accounting by Principals and Agents**

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

### 4. Investment property

| | 2017 | | |
| --- | --- | --- | --- |
| | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** |
| Investment property | 17,206,951 | - | 17,206,951 |

**Reconciliation of investment property - 2017**

| | **Opening balance** | **Total** |
| --- | --- | --- |
| Investment property | 17,206,951 | 17,206,951 |

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal are as follows:

Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements is as follows:

In the exceptional cases when the municipality have to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the fair value measurement, disclose the following:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and
- on disposal of investment property not carried at fair value:
  - the fact that the entity has disposed of investment property not carried at fair value,
  - the carrying amount of that investment property at the time of sale, and
  - the amount of gain or loss recognised.

## Notes to the Financial Statements

Figures in Rand

### 5. Property, plant and equipment

| | 2017 | | |
|---|---|---|---|
| | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** |
| Land | 529,980,489 | (28,966,406) | 501,014,083 |
| Buildings | - | - | - |
| Infrastructure | 1,032,648,020 | (363,925,697) | 668,722,323 |
| Community | 91,868,421 | (40,884,437) | 50,983,984 |
| Other property, plant and equipment | 67,764,873 | (40,697,957) | 27,066,916 |
| Finance lease assets | 14,838,475 | (11,197,896) | 3,640,579 |
| Solid Waste | 767,045 | (214,776) | 552,269 |
| Work-in-progress | 93,204,627 | - | 93,204,627 |
| **Total** | **1,831,071,950** | **(485,887,169)** | **1,345,184,781** |

# Notes to the Financial Statements

Figures in Rand

**5. Property, plant and equipment (continued)**

**Reconciliation of property, plant and equipment - 2017**

| | Opening balance | Additions | Transfers to completed items | Correction of Error | Disposal / Write off | Depreciation | Impairment loss | Total |
|---|---|---|---|---|---|---|---|---|
| Land | 473,864,547 | 29,004,824 | - | - | - | (1,855,288) | - | 501,014,083 |
| Buildings | - | - | - | - | - | - | - | - |
| Infrastructure | 641,451,779 | 46,945,292 | - | 20,600,154 | (838,852) | (39,272,903) | (163,147) | 668,722,323 |
| Community | 54,133,118 | - | - | 1,661,097 | (502,497) | (4,117,619) | (190,115) | 50,983,984 |
| Other property, plant and equipment | 27,837,563 | - | - | 3,415,501 | (733) | (4,044,421) | (140,994) | 27,066,916 |
| Finance lease assets | 4,732,426 | 715,391 | - | 210,142 | - | (2,017,380) | - | 3,640,579 |
| Solid Waste | 577,054 | - | - | 8,516 | - | (33,301) | - | 552,269 |
| Work-in-progress | 50,733,333 | 49,724,909 | (7,253,615) | - | - | - | - | 93,204,627 |
| | **1,253,329,820** | **126,390,416** | **(7,253,615)** | **25,895,410** | **(1,342,082)** | **(51,340,912)** | **(494,256)** | **1,345,184,781** |

**5. Property, plant and equipment (continued)**

**Additional notes:**

**Landfill sites:**

Hill & Associates Civil and Environmental Engineers was appointed to establish the cost to rehabilitate the 3 Landfill Sites as at the current financial year-end at the LIM368 Municipality in line with the Municipal Finance Management Act (MFMA) and Generally Recognized Accounting Practices. Costs included in these reports were used to ensure provisions are made.

| Sites | Opening Value | Addition | Closing Value | Remaining UL (Days) | Remaining UL (Years) |
| --- | --- | --- | --- | --- | --- |
| Vaalwater Landfill Site | 7,403,793 | 72,143 | 7,475,936 | 1,747 | 4.79 |
| Mookgopong Landfill Site | 251,901 | 27,639,250 | 27,891,152 | 18,410 | 50.44 |
| Modimolle Landfill Site | 26,053,254 | 1,293,430 | 27,346,684 | 2,007 | 5.32 |
| | **33,708,948** | **29,004,823** | **62,713,772** | **22,164** | **60.55** |

**Correction of Error:**

Combined Systems (Pty) Ltd was appointed to perform a verification on all Moveable assets and Infrastructure assets within the Mookgopong Township as well as the verification of Completed Projects. As a result of the verification process, new assets were identified that was not accounted for on the Fixed Asset Register. A total of 2006 assets were Fair Valued and this resulted in a Correction of Error to the value of R24,559,511. This effected the following classes of assets:

| | |
| --- | --- |
| Community assets | 1,411,550 |
| Infrastructure | 20,504,587 |
| Other assets | 2,640,193 |
| Solid waste disposal | 3,181 |

The Finance Lease agreement for Photocopiers, previous in the name of the Modimolle Municipality expired in the previous financial year. A correction on Depreciation was made to the value of R36,484 in order to correct this.

During the verification process it was established that 49 assets that were Fully Depreciated in the previous financial year, was still in use and a correction was made on the Accummulated Depreciation to the value of R1,128,937.

**Disposals / Write Off:**

No auction took place and therefore no assets were disposed in the current financial year. During the verification process assets were identified that were replaced and demolished. These assets were written off. A total of 80 assets were written off to the value of 1,341,503.

**Impairments:**

During the verification process, assets were identified, where indicators for Impairment were identified. Impairment tests were performed as per the Standards of GRAP and as a result of these impairment tests a total of 19 assets were impaired. The impairment loss occured is R494,257.

**Residual Values:**

During the merger process a new policy was adopted that included an Annexure of Asset Components and their respective Residual Values. Residual Values were allocated to assets where applicable. No historic information was available to indicate additional review of the residual values as included in policy.

**Useful Life Reviews:**

# Notes to the Financial Statements

| Figures in Rand | 30 June 2017 |
| --- | --- |

### 5. Property, plant and equipment (continued)

As per the standards of GRAP Useful life must be reviewed annually. During the verification of assets a condition assessment was performed and based on the conditions of assets, the Useful Life was reviewed and adjusted where necessary, by either reducing or increasing the Remaining Useful Life's of the assets. This resulted in the Useful Life of 250 assets to increase. Depreciation before Useful Life review was R361,630 and increased to R881,976. The change in estimate is R520,346.

**Reconciliation of Work-in-Progress - 2017**

| | Included within Infrastructure | Included within Community | Included with Land | Total |
| --- | --- | --- | --- | --- |
| Opening balance | 49,316,957 | 1,416,375 | - | 50,733,332 |
| Additions/capital expenditure | 45,770,883 | 2,769,220 | 1,184,806 | 49,724,909 |
| Transferred to completed items | (7,253,615) | - | - | (7,253,615) |
| | **87,834,225** | **4,185,595** | **1,184,806** | **93,204,626** |

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 6. Intangible assets

| | 2017 | | |
| --- | --- | --- | --- |
| | **Cost / Valuation** | **Accumulated amortisation and accumulated impairment** | **Carrying value** |
| Computer software, other | 2,666,407 | - | 2,666,407 |

**Reconciliation of intangible assets - 2017**

| | Opening balance | Amortisation | Total |
| --- | --- | --- | --- |
| Computer software, other | 2,726,036 | (59,629) | 2,666,407 |

**Other information**

After assessing the relevant factors, LIM368 determined that there is no foreseeable limit to the period over which the intangible assets are expected to generate a service potential for the entity, and therefore the useful life will be indefinite. Where an intangible asset arises from contractual rights or legal rights, the useful life of the intangible asset should not exceed the period of the contractual or legal rights, but may be shorter. If there is a specified term that the contract or legal right can be renewed without incurring significant cost, then the useful life should include the renewal period.

### 7. Heritage assets

| | 2017 | | |
| --- | --- | --- | --- |
| | **Cost / Valuation** | **Accumulated impairment losses** | **Carrying value** |
| Historical objects | 181,347 | - | 181,347 |

## Notes to the Financial Statements

| Figures in Rand | 30 June 2017 |
| --- | --- |

### 7. Heritage assets (continued)

**Reconciliation of heritage assets 2017**

| | **Opening balance** | **Total** |
| --- | --- | --- |
| Historical objects | 181,347 | 181,347 |

**Other information**

The Historical objects consist of two mayoral chains and a statue in Mookgopong town.

Heitage Assets are accounted for as per the Standards of GRAP 103 on Heritage Assets. Due to the nature of Heritage Assets, i.e. they are held for an indefinite period, Heritage Assets are not depreciated, as they do not have a limited useful life. Any diminution in value may also be immaterial.

### 8. Prepayments

The Municipality pays its Insurance Policy with an annual payment in July of every year. The insurance policy renewal for the period of 1 July 2016 to 30 June 2017 was paid on 5 July 2016 to Bathathu Risk Services (Pty) Ltd therefore the amount of R1 468 139 for 323 days is a prepayment.

### 9. Investments

| | |
| --- | --- |
| N T K | 128,415 |
| Fixed Deposit | 900,000 |
| | **1,028,415** |

| | |
| --- | --- |
| **Current and Non-Current** | |
| Current Investment | 900,000 |
| Non-current Investments | 128,415 |
| | **1,028,415** |

Fixed deposits amounting to R900 000 have been pledged to Magalies Water for a deposit. The Investment is renewable annually. The shares held in NTK are for the purposes of holding an account with the entity. NTK shares earn dividends that are payable to the Municipality every 15 years. Currently the investments amount to R9 358.

| **NTK Shares - 30 June 2017** | Class 1 Normal Shares | Class 2 Preferencial Shares | Class 3 Preferencial Shares | Security Investments | Total |
| --- | --- | --- | --- | --- | --- |
| Opening Balance | 5,000 | 32,244 | 77,919 | 3,926 | 119,089 |
| Fair Value adjustments | - | 17 | - | 9,309 | 9,326 |
| | **5,000** | **32,261** | **77,919** | **13,235** | **128,415** |

### 10. Other Receivables

| | |
| --- | --- |
| Deposit - Electricity | 372,363 |

The deposit is held by Eskom for bulk services rendered to the municipality.

# Notes to the Financial Statements

| Figures in Rand | 30 June 2017 |
| --- | --- |

## 11. Inventories

| | |
| --- | --- |
| Raw materials, components | 4,993,579 |
| Water | 306,215 |
| | **5,299,794** |

**Stores**

There are two stores within the municipality, one in Modimolle and the other in Mookgophong. The store consists mainly of maintenance items for the Water, Sanitation and Electricity Departments as well as stationary and protective clothing for the Municipality.

## 12. Cash and cash equivalents

Cash and cash equivalents consist of:

| | |
| --- | --- |
| Cash on hand | 8,710 |
| Bank balances | 792,715 |
| Short-term deposits | 10,658,732 |
| Bank overdraft | (154,953,419) |
| | **(143,493,262)** |
| Current assets | 11,460,157 |
| Current liabilities | (154,953,419) |
| | **(143,493,262)** |
| The overdraft disclosed is as a result of investigating items on the bank reconciliation due to the merger of the municipalities. | - |

Included in the Cashbook balances and Bank balances in an amount of (R115 797 982) and R6 076 respectively that relates to the Mookgophong primary bank account that was closed on the 3 August 2017. The delays in the closure of this account were as a result of consumers still depositing funds and delays experienced by Standard Bank.

**Short term deposits**

The total of short term deposits of R6 747 382 agrees to the bank statements. The short term deposits of R685 732 are disclosed in note 12. The dfference is as a result of reconciling items in the bank reconciliations.

| **Credit rating** | |
| --- | --- |
| Call deposits | 1,793,939 |
| 32 Days | 1,374,267 |
| Fixed deposits (less than 12 months) | 3,579,176 |
| | **6,747,382** |

## Notes to the Financial Statements

| Figures in Rand | 30 June 2017 |
|---|---|

### 12. Cash and cash equivalents (continued)

**The municipality had the following bank accounts**

| Account number / description | Bank statement balances 30 June 2017 | Cash book balances 30 June 2017 |
|---|---|---|
| Standard Bank Limited - Primary Account - Current account 330506137 | 3,074,378 | (28,362,723) |
| Standard Bank Limited (Mookgophong Bank Account) 031702325 | 6,076 | (115,797,982) |
| ABSA Bank - Fixed deposit - 405 963 6391 | 2,679,176 | 2,679,176 |
| ABSA BANK - Call Account - 92 5502 6252 | 834,007 | 834,007 |
| ABSA BANK - Call Account - 92 8651 1602 | 21,943 | 21,943 |
| Standard BANK - 32 Days - 0388 3585 1003 | 1,374,267 | 1,374,267 |
| Standard BANK - Call Account - 3487 14238 003 | 46,400 | 46,400 |
| FNB - Call Account - 620 3596 2720 | 495,304 | 495,304 |
| FNB - Call Account - 621 0442 5295 | 30,560 | 30,560 |
| FNB - Call Account - 6260 334 1174 | 20,528 | 20,528 |
| FNB - Call Account - 6268 650 0226 | 90,402 | 90,402 |
| Nedbank - Call Account - 788 1103 124 / 13 | 254,795 | 254,795 |
| FNB - Fixed deposit - 710 5722 0470 | 900,000 | 900,000 |
| **Total** | **9,827,836** | **(137,413,323)** |

### 13. Receivables from exchange transactions

| | |
|---|---|
| Deposits | 269,155 |
| Other receivables | 7,123,623 |
| | **7,392,778** |

### 14. Consumer debtors

| | |
|---|---|
| **Gross balances** | |
| Rates | 73,119,210 |
| Electricity | 38,723,561 |
| Water | 50,953,853 |
| Sewerage | 25,218,052 |
| Refuse | 18,578,535 |
| VAT - Consumer debtors | 20,245,487 |
| Other Consumer debtors | 68,506,881 |
| | **295,345,579** |

## Notes to the Financial Statements

| Figures in Rand | 30 June 2017 |
|---|---|

### 14. Consumer debtors (continued)

| | |
|---|---|
| **Less: Allowance for impairment** | |
| Electricity | (13,902,279) |
| Water | (21,482,635) |
| Refuse | (8,192,484) |
| VAT | (8,371,815) |
| Other | (31,032,602) |
| | **(82,981,815)** |

| | |
|---|---|
| **Net balance** | |
| Rates | 73,119,210 |
| Electricity | 24,821,282 |
| Water | 29,471,218 |
| Sewerage | 25,218,052 |
| Refuse | 10,386,051 |
| VAT - Consumer debtors | 11,873,672 |
| Other Consumer debtors | 37,474,279 |
| | **212,363,764** |

| | |
|---|---|
| **Included in above is receivables from exchange transactions** | |
| Electricity | 24,821,282 |
| Water | 29,471,218 |
| Sewerage | 25,218,052 |
| Refuse | 10,386,051 |
| VAT | 11,873,672 |
| Other | 37,474,279 |
| | **139,244,554** |

| | |
|---|---|
| **Included in above is receivables from non-exchange transactions (taxes and tansfers)** | |
| Rates | 73,119,210 |
| **Net balance** | **212,363,764** |

| | |
|---|---|
| **Rates** | |
| Current (0 -30 days) | 31,440 |
| 31 - 60 days | 4,473,595 |
| 61 - 90 days | 2,544,138 |
| 91 - 120 days | 2,300,741 |
| > 121 days | 63,769,296 |
| | **73,119,210** |

| | |
|---|---|
| **Electricity** | |
| Current (0 -30 days) | 186,449 |
| 31 - 60 days | 6,820,234 |
| 61 - 90 days | 3,067,480 |
| 91 - 120 days | 2,032,438 |
| > 121 days | 26,616,960 |
| Less: Impairment | (13,902,279) |
| | **24,821,282** |

| Figures in Rand | 30 June 2017 |
|---|---|

### 14. Consumer debtors (continued)

| **Water** | |
|---|---|
| Current (0 -30 days) | 91,960 |
| 31 - 60 days | 3,826,465 |
| 61 - 90 days | 2,764,661 |
| 91 - 120 days | 2,346,566 |
| > 121 days | 41,924,201 |
| Less: Impairment | (21,482,635) |
| | **29,471,218** |

| **Sewerage** | |
|---|---|
| Current (0 -30 days) | 7,743 |
| 31 - 60 days | 1,797,558 |
| 61 - 90 days | 1,073,934 |
| 91 - 120 days | 964,893 |
| > 121 days | 21,373,924 |
| Less: Impairment | - |
| | **25,218,052** |

| **Refuse** | |
|---|---|
| Current (0 -30 days) | 2,613 |
| 31 - 60 days | 1,052,182 |
| 61 - 90 days | 640,917 |
| 91 - 120 days | 576,439 |
| > 121 days | 16,306,385 |
| Less: Impairment | (8,192,485) |
| | **10,386,051** |

| **VAT** | |
|---|---|
| Current (0 -30 days) | 32,190 |
| 31 - 60 days | 1,884,723 |
| 61 - 90 days | 1,076,190 |
| 91 - 120 days | 835,189 |
| > 121 days | 16,417,195 |
| Less: Impairment | (8,371,815) |
| | **11,873,672** |

| **Other** | |
|---|---|
| Current (0 -30 days) | 105,240 |
| 31 - 60 days | 2,295,428 |
| 61 - 90 days | 2,155,161 |
| 91 - 120 days | 2,071,208 |
| > 121 days | 61,879,844 |
| Less: Impairment | (31,032,602) |
| | **37,474,279** |

# Notes to the Financial Statements

| Figures in Rand | 30 June 2017 |
|---|---|

## 14. Consumer debtors (continued)

**Summary of debtors**

| | |
|---|---|
| **Total** | |
| Current (0 -30 days) | 426,196 |
| 31 - 60 days | 17,676,589 |
| 61 - 90 days | 10,778,342 |
| 91 - 120 days | 8,826,733 |
| 121 - 365 days | 184,518,508 |
| | 222,226,368 |
| Less: Allowance for impairment | (82,981,815) |
| | **139,244,553** |

| | |
|---|---|
| **Reconciliation of allowance for impairment** | |
| Balance at beginning of the year | (104,471,484) |
| Contributions to allowance | (36,866,512) |
| Debt impairment written off against allowance | 58,356,181 |
| | **(82,981,815)** |

**Consumer debtors past due but not impaired**

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2017, R 28,881,128 were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

| | |
|---|---|
| 2 months past due | 18,102,785 |
| 3 months past due | 10,778,342 |

## 15. Receivables from non-exchange transactions

| | |
|---|---|
| Fines | 1,459,809 |
| Other receivables | 745,004 |
| Less: Impairment | (2,204,813) |
| | - |

**Receivables from non-exchange transactions**

| Figures in Rand | 30 June 2017 |
|---|---|

### 15. Receivables from non-exchange transactions (continued)

**Receivables from non-exchange transactions impaired**

| | |
|---|---|
| **Traffic fines impairment movement:** | |
| Opening balance | 1,176,179 |
| Contribution to provision | 283,630 |
| | **1,459,809** |
| | |
| **Other receivables impairment movement** | |
| Opening balance | 745,004 |
| | |
| **Total impairment** | **2,204,813** |

As of 30 June 2017, other receivables from non-exchange transactions for Traffic Fines of R 1,459,809 were impaired and provided for.

The amount of the provision was R 1,459,809 as of 30 June 2017.

### 16. VAT receivable

| | |
|---|---|
| VAT | 14,020,397 |

### 17. Housing Development Reserve

Application has been made to Provincial Treasury to write back this reserve to accumulated surplus.

| | |
|---|---|
| Opening / Closing balance | 483,263 |

### 18. Other financial liabilities

| | |
|---|---|
| **At amortised cost** | |
| Development Bank of Southern Africa<br>Account number 10467. Redemption date: 30 September 2017. Interest rate 12%. Payment terms 6 monthly. | 150,995 |
| | |
| **Current liabilities** | |
| At amortised cost | 150,995 |

# Notes to the Financial Statements

| Figures in Rand | 30 June 2017 |
|---|---|

## 19. Employee benefit obligations

**Defined benefit plan**

**Post employment health care plan**

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. The plan is treated as a defined benefit plan under GRAP 25. No other post-retirement benefits are provided to these employees.

The municipality makes monthly contributions for health care arrangements to the following Medical Aid Schemes:
- Bonitas
- Hosmed
- Keyhealth
- LA Health
- Samwumed

The post-employment health care benefit is a defined benefit plan, which is made up as follows:

| | | |
|---|---|---|
| **Eligible in-service members** | | |
| Number of Principal Members | | 187 |
| Number Non-Members | | 218 |
| Average Age of Member | | 44.2 |
| Average Past Service | | 10.7 |
| Average number of dependants for In-Service Members | | 1.5 |
| **Continuing Members** | | |
| Number of Principal Members | | 40 |
| Average Age of Members | | 72.8 |
| Average No. of Dependants | | 0.5 |
| Average Employee Contribution | R | 3,198 |

**The liability in respect of past service has been estimated to be as follows:**

| | |
|---|---|
| In-Service Members | 17,921,000 |
| In-Services Non-Members | 4,215,000 |
| Continuation Members | 16,806,000 |
| | **38,942,000** |

**The amounts recognised in the statement of financial position are as follows:**

| | |
|---|---|
| **Carrying value** | |
| Present value of the defined benefit obligation - unfunded | (38,942,530) |
| Fair value of plan assets | - |
| Unrecognised Transitional Liability | - |
| Unrecognised Actuarial Gains/(Losses) | - |
| Unrecognised Past Service Cost | - |
| | **(38,942,530)** |

| | |
|---|---|
| Non-current liabilities | (37,346,699) |
| Current liabilities | (1,595,831) |
| | **(38,942,530)** |

## Notes to the Financial Statements

| Figures in Rand | 30 June 2017 |
| --- | --- |

**19. Employee benefit obligations (continued)**

**Changes in the present value of the defined benefit obligation are as follows:**

| | |
| --- | --- |
| Opening balance | 50,900,403 |
| Current-service Cost | 2,291,081 |
| Interest Cost | 4,250,608 |
| Actuarial (Gain)/Loss | (17,110,051) |
| Expected Employer Benefit Payments | (1,389,511) |
| | **38,942,530** |

**Net expense recognised in the statement of financial performance**

| | |
| --- | --- |
| Current service cost | 2,291,081 |
| Interest cost | 4,250,608 |
| Actuarial (gains) losses | (17,110,051) |
| Expected Employer Benefit Payments | (1,389,511) |
| | **(11,957,873)** |

**Key assumptions used**

Assumptions used at the reporting date:

| | |
| --- | --- |
| Discount rates used | 9.61 % |
| Health care cost inflation rate | 7.89 % |
| Expected increase in salaries | 7.39 % |
| Maximum subsidy inflation rate | 5.54 % |

The basis used to determine the discount rate of return is as follow:

A discount rate of 9.61 % per annum has been used. The corresponding index-linked yield at this term is 2.55 %. The rate is calculated by using a weighted average of yields for the three components of the liability.

The employee benefit obligation was independently performed by ARCH Actuarial Consulting. The report was prepared by Chanan Weiss BSc FFA. Chanan is a Fellow of the Actuarial Society of South Africa.

| Figures in Rand | 30 June 2017 |
|---|---|

### 19. Employee benefit obligations (continued)

**Other assumptions**

Changes in the present value of the defined benefit obligations for the current and previous four periods are as follows:

| | 2017 R |
|---|---|
| Opening Balance | 50,900,403 |
| Benefits Paid | (1,389,511) |
| Net expense recognised in the Statement of Financial Performance | 6,541,689 |
| Actuarial (Gain)/Loss | (17,110,051) |
| | **38,942,530** |

| **The amounts recognised in the Statement of Financial Position are as follows:** | **2017 R** |
|---|---|
| Present value of the defined benefit obligations - partially of wholly funded | 38,942,530 |

A one percent change in assumed health cost trends rates would have the following effects:

| **Sensitivity Analysis** | Change | Current-Service Cost | Interest Cost | Total | % Change |
|---|---|---|---|---|---|
| Central Assumptions | | 2,291,100 | 4,250,600 | 6,541,700 | - % |
| Health Care Inflations | +1% | 2,563,500 | 4,633,100 | 7,196,600 | 10 % |
| | -1% | 1,956,100 | 3,815,400 | 5,771,500 | (12)% |
| Discount rate | +1% | 1,879,900 | 4,061,100 | 5,941,000 | (9)% |
| | -1% | 2,829,200 | 4,452,300 | 7,281,500 | 11 % |
| Post-Retirement Mortality | -1yr | 2,354,700 | 4,392,300 | 6,747,000 | 3 % |
| Average Retirement Age | -1yr | 2,396,000 | 4,480,600 | 6,876,600 | 5 % |
| Continuation of membership at retirement | -10% | 1,872,400 | 3,776,800 | 5,649,200 | (14)% |

### 20. Finance lease obligation

| | |
|---|---|
| **Minimum lease payments due** | |
| - within one year | 2,958,620 |
| - in second to fifth year inclusive | 700,385 |
| | 3,659,005 |
| less: future finance charges | (233,499) |
| **Present value of minimum lease payments** | **3,425,506** |
| Non-current liabilities | 667,137 |
| Current liabilities | 2,758,369 |
| | **3,425,506** |

The average lease term is 3 years and the effective borrowing rate is 9%. Interest rates are fixed at the contract date. No arrangements have been entered into for the contingent rent. Obligations under finance leases are secured by the lesors title to the leased asset.

## Notes to the Financial Statements

| Figures in Rand | 30 June 2017 |
|---|---|

### 21. Unspent conditional grants and receipts

**Unspent conditional grants and receipts comprises of:**

| **Unspent conditional grants and receipts** | |
|---|---|
| Municipal Demarcation Grant | 7,871,881 |
| INEG | 1,215,329 |
| Municipal Water Infra Grant | 6,603,391 |
| Local Government Grant | 2,901,261 |
| Lotto | 137,300 |
| Waterberg District Municipality | 61,112 |
| | **18,790,274** |

See note 29 for reconciliation of grants from National Government.

# Notes to the Financial Statements

| Figures in Rand | 30 June 2017 |
|---|---|

### 22. Provisions

**Reconciliation of provisions - 2017**

| | Opening Balance | Additions | Change in discount factor | Total |
|---|---|---|---|---|
| Environmental rehabilitation | 33,708,949 | 29,004,823 | - | 62,713,772 |
| Long-service award | 9,007,743 | - | 902,777 | 9,910,520 |
| | **42,716,692** | **29,004,823** | **902,777** | **72,624,292** |

| | |
|---|---|
| Non-current liabilities | 71,154,558 |
| Current liabilities | 1,469,734 |
| | **72,624,292** |

**Environmental rehabilitation provision**

The provision for the rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal. It is calculated as the present value of the future obligation.

| **30 June 2017** | Modimolle | Vaalwater | Mookgophong |
|---|---|---|---|
| Escalation rate | 2% | 2% | 2% |
| Useful life | 24 years | 24 years | 51 years |
| Remaining useful life | 5.32 years | 4.79 years | 50.44 years |
| Restoration area | 83 594 sqm | 18 038 sqm | 80 863 sqm |

**Long-service award**

A long service award is granted to municipal employees for every five (5) years of service completed from five (5) years of service to fourty five (45) years of service inclusive. Employees are also entitled to receive a long service voucher upon reaching twenty five (25) years of service with a maximum value of half of the monthly salary of the recipient.

The provision represents an estimate of the awards to which employees in the service of the municipality at 30 June 2017 may become entitled to in future, based on actuarial valuation performed at that date.

The most recent acturial valuations of plan assets and the present value of the unfunded defined benefit obligation were carried out as at 30 June 2017 by a member of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method. No other long service benefits are provided by the Municipality.

The long-service award plans are defined benefit plans. As at year-end 609 employees were eligible for long-service awards.

The Long-Service award actuarial valuation was independently perfomed by ARCH Actuarial Consultants. The report was prepared by Chanan Weiss BSc FFA. Chanan Weiss is a Fellow of the Actuarial Society of South Africa.

| **History of Liabilities and Assets** | 30 June 2017 |
|---|---|
| Present value of defined benefit obligation | 9,910,520 |

| **History of Expererience Adjustments: Gains and Losses** | 30 June 2017 |
|---|---|
| Liabilities: (Gain)/Loss | 469,428 |

| **The Principal assumptions used for the purposes of the actuarial valuations were as follows:** | 30 June 2017 |
|---|---|
| Discount Rate | 8.47 % |
| Expected rate of salay increase | 6.29 % |

## Notes to the Financial Statements

| Figures in Rand | 30 June 2017 |
|---|---|

### 22. Provisions (continued)

| | |
|---|---|
| Net effective discount rate | 2.05 % |

| **The amounts recognised in the Statement of Financial Position are as follows:** | 30 June 2017 |
|---|---|
| Present value of Fund obligations | 9,910,520 |

| **The amount recognised in the Statement of Financial Performance are as follows:** | 30 June 2017 |
|---|---|
| Current service cost | 951,122 |
| Interest cost | 630,246 |
| Actuarial loss | 240,022 |
| Expected employee benefit vesting | (918,613) |
| | **902,777** |

| **Reconciliation of the present value of defined benefit obligation to fair value of liability:** | 30 June 2017 |
|---|---|
| Balance at the beginning of year | 9,007,743 |
| Current-service Cost | 951,122 |
| Interest Cost | 630,246 |
| Expected employee benefit vesting | (918,613) |
| Actuarial Loss | 240,022 |
| | **9,910,520** |

### 23. Payables from exchange transactions

| | |
|---|---|
| Trade payables | 107,626,750 |
| Payments received in advanced | 16,338,056 |
| Retentions | 13,027,171 |
| Other creditors | 39,548,701 |
| Accrued leave pay | 23,583,143 |
| Accrued bonus | 4,638,553 |
| | **204,762,374** |

| **Bonus accrual movement** | |
|---|---|
| Opening Balance | 3,866,399 |
| Contribution to provision | 772,154 |
| | **4,638,553** |

| **Leave accrual movement** | |
|---|---|
| Opening Balance | 20,914,046 |
| Contribution to provision | 2,669,098 |
| | **23,583,144** |

### 24. VAT payable

VAT is payable on the receipts basis. VAT is paid over to SARS only once the payment is recieved from debtors.

### 25. Consumer deposits

| | |
|---|---|
| Electricity and water | 7,331,770 |

No interest is paid on the consumer deposits.

# Notes to the Financial Statements

| Figures in Rand | 30 June 2017 |
|---|---|

## 26. Revenue

| | |
|---|---|
| Service charges | 193,671,247 |
| Interest received - Trade debtors | 24,607,829 |
| Rental income | 246,968 |
| Fair Value of Shares | 9,326 |
| Fire Fighting income | 1,394,868 |
| Sundry income | 3,614,933 |
| Interest received - investment | 2,695,989 |
| Property rates | 55,978,716 |
| Government grants & subsidies | 173,701,354 |
| Fines, Penalties and Forfeits | 399,628 |
| | **456,320,858** |

**The amount included in revenue arising from exchanges of goods or services are as follows:**

| | |
|---|---|
| Service charges | 193,671,247 |
| Interest received (trading) | 24,607,829 |
| Rental income | 246,968 |
| Fair Value of Shares | 9,326 |
| Fire Fighting income | 1,394,868 |
| Sundry income | 3,614,933 |
| Interest received - investment | 2,695,989 |
| | **226,241,160** |

**The amount included in revenue arising from non-exchange transactions is as follows:**

| | |
|---|---|
| **Taxation revenue** | |
| Property rates | 55,978,716 |
| **Transfer revenue** | |
| Government grants & subsidies | 173,701,354 |
| Fines, Penalties and Forfeits | 399,628 |
| | **230,079,698** |

## Notes to the Financial Statements

| Figures in Rand | 30 June 2017 |
| --- | --- |

### 27. Property rates

**Rates received**

| | |
| --- | --- |
| Property Rates | 57,844,482 |
| Property rates - Rebates | (1,865,766) |
| | **55,978,716** |

**Valuations**

| | |
| --- | --- |
| Residential | 56,018,129,790 |
| Commercial | 11,078,388,300 |
| State | 5,611,064,980 |
| Church | 16,995,000 |
| Agricultural | 83,551,369,934 |
| | **156,275,948,004** |

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. Due to the amalgamation of the two municipalities an application was made to the MEC COGHSTA for an extention of the general valuation to come into effect on 1 July 2018. The new valuations will be valid for a period of 5 years.

### 28. Service charges

| | |
| --- | --- |
| Sale of electricity | 124,259,660 |
| Sale of water | 29,379,264 |
| Refuse removal | 15,008,006 |
| Sewerage and sanitation charges | 25,024,317 |
| | **193,671,247** |

Sale of electricity is made up of pre-paid electricity sales and conventional meter sales. Pre-paid electricity sales total R 41,308,627 are included in sale of electricity.

## Notes to the Financial Statements

| Figures in Rand | 30 June 2017 |
|---|---|

### 29. Government grants and subsidies

| | |
|---|---|
| **Operating grants** | |
| Equitable share | 77,122,058 |
| Financial Management Grant | 2,897,617 |
| Municipal Infrastructure Grant | 1,476,984 |
| Extended Public Works Programme | 2,302,000 |
| Municipal Demarcation Grant | 5,556,119 |
| Skills Education & Training Grant | 57,423 |
| | 89,412,201 |
| **Capital grants** | |
| Municipal Infrastructure Grant | 39,707,873 |
| Department of Energy Grants | 6,184,671 |
| Municipal Water Infra Grant | 38,396,609 |
| | 84,289,153 |
| | **173,701,354** |

**Conditional and Unconditional**

Included in above are the following grants and subsidies received:

| | |
|---|---|
| Conditional grants received | 1,507,418 |
| Unconditional grants received | 9,100,000 |
| | **10,607,418** |

**Equitable Share**

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy which is funded from the grant.

**Financial Management Grant**

| | |
|---|---|
| Current-year receipts | 3,635,000 |
| Conditions met - transferred to revenue | (3,635,000) |
| | - |

To promote and support reforms in financial management by building capacities in municipalities to implements the Municipal Finance Management Act (MFMA).

**Municipal Infrastructure Grant**

| | |
|---|---|
| Balance unspent at beginning of period / Merger | 4,929,858 |
| Current-year receipts | 36,255,000 |
| Conditions met - transferred to revenue | (54,918,498) |
| Own funding | 13,733,640 |
| | - |

To provide specific capital finance for the basic municipal infrastructural backlog for poor household, micro enterprise and social institution servicing poor comunities.

Conditions still to be met - remain liabilities (see note 21).

# Notes to the Financial Statements

| Figures in Rand | 30 June 2017 |
|---|---|

## 29. Government grants and subsidies (continued)

### Municipal Demarcation Grant

| | |
|---|---|
| Balance unspent at beginning of period | 5,372,000 |
| Current-year receipts | 8,056,000 |
| Conditions met - transferred to revenue | (5,556,119) |
| | **7,871,881** |

To subsidise the additional institutional and administrative cost arising from major boundary changes due to come into effect at the time of the 2016 local government elections.

Conditions still to be met - remain liabilities (see note 21).

### Extended Public Works Programme

| | |
|---|---|
| Current-year receipts | 2,302,000 |
| Conditions met - transferred to revenue | (2,302,000) |
| | - |

To incentivise municipalities to expand work creation efforts through the use of labour intensive delivery methods in the following identified focus areas: road maintenance and the maintenance of buildings, low traffic volume roads and rural roads, basic services infrastructre, including water and sewer reticulation, sanitation, pipelines(excluding bulk infrastructure), other economic and social infrastructure, tourism and cultural industries, waste management, parks and beautification, sustainable land-based livelihoods, social services programme, health service programme and community safery programme.

### Department of Energy / INEG

| | |
|---|---|
| Current-year receipts | 7,400,000 |
| Conditions met - transferred to revenue | (6,184,671) |
| | **1,215,329** |

To implement the Integrated National Electrification Programme (INEP) by providing capital subsidies to municipalities to address the electrification backlog of occupied residential dwellings, clinics and the installation of bulk infrastructure and rehabilitation and refurbishment of electricity infrastructure in order to improve quality of supply.

Conditions still to be met - remain liabilities (see note 21).

### Water Services Infrastructure Grant

| | |
|---|---|
| Current-year receipts | 45,000,000 |
| Conditions met - transferred to revenue | (38,396,609) |
| | **6,603,391** |

Conditions still to be met - remain liabilities (see note 21).

### Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act no 1 of 2016), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

# Notes to the Financial Statements

| Figures in Rand | 30 June 2017 |
|---|---|

### 30. Other revenue

| | |
|---|---|
| Rental income - third party | 246,968 |
| Fair value of Shares | 9,326 |
| Fire Fighting income | 1,394,868 |
| Sundry income | 3,614,933 |
| | **5,266,095** |

### 31. Other income

| | |
|---|---|
| Photo Copies | 40 |
| Cemetery Fees | 302,860 |
| Connection and Reconnection Fees | 1,277,934 |
| Sundry Income | 573,059 |
| Building Fees | 444,387 |
| Membership Fees | 12,558 |
| Insurance Claims | 60,050 |
| Clearance and Valuation Certificate | 456,877 |
| Dustbin Sales | 4,220 |
| Surplus Cash | 487 |
| Tender Documents | 404,990 |
| Advertising Boards | 77,471 |
| | **3,614,933** |

## Notes to the Financial Statements

| Figures in Rand | 30 June 2017 |
| --- | --- |

**32. General expenses**

| | |
| --- | --- |
| Internal Audit Committee | 84,593 |
| Advertising | 438,784 |
| Auditors Fees | 2,590,391 |
| Bank charges | 436,057 |
| Cleaning | 64,035 |
| Consulting and professional fees | 4,945,796 |
| Insurance | 1,004,455 |
| Conferences and seminars | 176,885 |
| Library services | 12,470 |
| Publications | 822,214 |
| Motor vehicle expenses | 6,706,823 |
| Pest control | 35,397 |
| Fuel and oil | 833,510 |
| Postage and courier | 1,439 |
| Printing and stationery | 4,227,817 |
| Landfill sites cost | 1,686,895 |
| Protective clothing | 441,001 |
| Security (Guarding of municipal property) | 7,275,707 |
| Software License Fee | 428,630 |
| Subscriptions and membership fees | 204,705 |
| Telephone and fax | 1,853,912 |
| Transport and freight | 2,792,236 |
| Training | 86,677 |
| Refuse Bags | 244,069 |
| Other expenses | 783,857 |
| Council committee | 13,507 |
| Funeral assistance | 44,486 |
| Special Projects | 70,266 |
| Chemicals | 1,239,065 |
| Grant expenditure | 8,291,741 |
| EAP Referals | 6,494 |
| Material and Stock | 224,414 |
| Occupational Health and Safety | 9,000 |
| Municipal Programs | 40,000 |
| Disaster Management | 13,964 |
| Test Water Samples | 43,844 |
| Valuation Cost | 1,052,170 |
| Municipal Strategy | 38,984 |
| | **49,266,290** |

## Notes to the Financial Statements

| Figures in Rand | 30 June 2017 |
|---|---|

### 33. Employee related costs

| | |
|---|---|
| Employee related costs - Salaries and Wages | 97,908,281 |
| Standby | 5,073,825 |
| Bonus | 6,172,461 |
| Medical aid - company contributions | 6,517,340 |
| UIF | 875,107 |
| Skills Levy | 1,259,172 |
| Other payroll levies | 15,199 |
| Employee related costs - Contributions for UIF, Pensions and Medical Aids | 18,975,831 |
| Travel, motor car, accommodation, subsistence and other allowances | 1,180,409 |
| Overtime payments | 8,047,923 |
| Long-service awards | 1,380,166 |
| Car allowance | 9,081,339 |
| Housing benefits and allowances | 678,970 |
| Cell Phone Allowance | 1,301,676 |
| Group Insurance | 579,962 |
| Tool allowance | 5,428 |
| | **159,053,089** |

**Remuneration of municipal manager (NS Bambo)**

| | |
|---|---|
| Annual Remuneration | 836,964 |
| Car Allowance | 120,321 |
| Cellphone allowance | 18,750 |
| Contributions to UIF, Medical and Pension Funds | 194,540 |
| | **1,170,575** |

Mr Bambo was seconded to COGHSTA from 13 August 2016.

**Remuneration of municipal manager (OP Sebola)**

| | |
|---|---|
| Annual Remuneration | 621,290 |
| Car Allowance | 255,787 |
| Cellphone allowance | 17,036 |
| Contributions to UIF, Medical and Pension Funds | 146,241 |
| | **1,040,354** |

**Remuneration of chief finance officer (D Eksteen)**

| | |
|---|---|
| Annual Remuneration | 665,251 |
| Car Allowance | 208,276 |
| Cellphone allowance | 8,518 |
| Subsistance allowance | 6,360 |
| Contributions to UIF, Medical and Pension Funds | 9,997 |
| | **898,402** |

## Notes to the Financial Statements

| Figures in Rand | 30 June 2017 |
|---|---|

### 33. Employee related costs (continued)

**Remuneration of corporate services manager (NJ Moagi)**

| | |
|---|---|
| Annual Remuneration | 158,728 |
| Car Allowance | 52,562 |
| Bonuses | 41,953 |
| Cellphone allowance | 5,900 |
| Leave pay | 191,405 |
| Contributions to UIF, Medical and Pension Funds | 46,730 |
| | **497,278** |

The contract for the Manager: Corporate Services expired on November 2016.

**Remuneration of social services manager (MZ Namate)**

| | |
|---|---|
| Annual Remuneration | 481,518 |
| Car Allowance | 80,357 |
| Cellphone allowance | 18,750 |
| Subsistance allowance | 24,605 |
| Contributions to UIF, Medical and Pension Funds | 128,916 |
| | **734,146** |

Mr Namate was the Manager: Social Services for the Erstwhile Modimolle Local Municipality.

**Remuneration of social services manager (MH Sebata)**

| | |
|---|---|
| Annual Remuneration | 496,915 |
| Car Allowance | 155,695 |
| Leave pay | 72,864 |
| Cellphone allowance | 13,061 |
| Subsistance allowance and travel expenses | 111,728 |
| Contributions to UIF, Medical and Pension Funds | 145,211 |
| | **995,474** |

Mr Sebata was the Manager: Social Services for the Erstwhile Mookgophong Local Municipality.

**Remuneration of technical services manager (N Sikhiwivhilu)**

| | |
|---|---|
| Annual Remuneration | 445,386 |
| Car Allowance | 112,500 |
| Cellphone allowance | 18,150 |
| Subsistance allowance | 30,154 |
| Contributions to UIF, Medical and Pension Funds | 102,576 |
| | **708,766** |

### 34. Remuneration of councillors

| | |
|---|---|
| Mayor | 696,239 |
| Speaker | 561,346 |
| Chief Whip | 527,623 |
| Executive Council Members | 1,205,253 |
| Councillors | 8,989,067 |
| | **11,979,528** |

## Notes to the Financial Statements

| Figures in Rand | 30 June 2017 |
|---|---|

### 34. Remuneration of councillors (continued)

**In-kind benefits**

The Mayor, Speaker and Chief Whip are full-time. The Mayor, Speaker, Chief Whip are provided with an office and secretarial support at the cost of the Council.

The Mayor has use of a Council owned vehicle and driver for official duties.

### 35. Actuarial (gain)/loss

| | |
|---|---|
| Long service award | 272,531 |
| Post-retirement health care benefits | (16,208,481) |
| | **(15,935,950)** |

### 36. Depreciation and amortisation

| | |
|---|---|
| Property, plant and equipment | 51,400,543 |

### 37. Finance costs

| | |
|---|---|
| Post retirement benefits | 4,880,854 |
| Finance leases | 466,491 |
| External loan interest | 25,808 |
| | **5,373,153** |

### 38. Debt impairment

| | |
|---|---|
| Contributions to debt impairment provision | 37,150,142 |

### 39. Investment earned - external investments

| | |
|---|---|
| **Interest revenue** | |
| Unlisted financial assets | 2,240,788 |
| Bank | 455,201 |
| | **2,695,989** |

### 40. Auditors' Fees

| | |
|---|---|
| Auditor General Fees | 2,590,391 |

### 41. Contracted services

| | |
|---|---|
| Specialist Services | 15,881,272 |

### 42. Bulk purchases

| | |
|---|---|
| Electricity | 140,548,881 |
| Water | 2,087,941 |
| | **142,636,822** |

# Notes to the Financial Statements

| Figures in Rand | 30 June 2017 |
| --- | --- |

### 43. Cash used in operations

| | |
| --- | --- |
| Deficit | (20,708,733) |
| **Adjustments for:** | |
| Depreciation and amortisation | 51,400,543 |
| Finance costs | 5,373,153 |
| Impairment deficit | 1,836,339 |
| Debt impairment | 37,150,142 |
| Acturial gain on post retirement | (15,935,950) |
| Finance cost | (492,299) |
| **Changes in working capital** | |
| Inventories | (351,786) |
| Receivables from exchange transactions | (1,655,636) |
| Consumer debtors | (73,683,160) |
| Other receivables from non-exchange transactions | 14,721,401 |
| Payables from exchange transactions | (65,971,481) |
| VAT | (6,869,270) |
| Unspent conditional grants and receipts | (8,381,505) |
| Consumer deposits | (23,874) |
| | **(83,592,116)** |

## Notes to the Financial Statements

| Figures in Rand | 30 June 2017 |
|---|---|

### 44. Mergers

**Mergers occurring during the current reporting period**

On 10 August 2016 a merger between Modimolle Local Municipality and Mookgophong Local Municipality took place establishing a new combining entity called Lim 368 Local Municipality. This was due to new legislation which determined that Modimolle Local Municipality and Mookgophong Local Municipality assets and liabilities should be combined. No acquirer could be identified.

The results of the merger will be included in the 2017 financial statements of the combined entities.

**Value of assets acquired and liabilities assumed**

| | Modimolle LM 10 August 2016 | Mookgophon g LM 10 August 2016 | Adjustment to take on balances | LIM 368 LM Take on Balances |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current Assets** | | | | |
| Inventories | 3,599,410 | 1,348,598 | - | 4,948,008 |
| Receivables from exchange transactions | 5,754,638 | - | - | 5,754,638 |
| Receivables from non-exchange transactions | - | 14,721,401 | - | 14,721,401 |
| VAT receivable | - | 7,976,833 | - | 7,976,833 |
| Prepayments | 1,468,139 | - | - | 1,468,139 |
| Consumer debtors from exchange transactions | 86,193,665 | 16,403,688 | - | 102,597,353 |
| Consumer debtors from non-exchange transactions | 29,309,093 | 43,924,300 | - | 73,233,393 |
| Short-term investment | 900,000 | - | - | 900,000 |
| Current receivables | 354,867 | - | - | 354,867 |
| Cash and cash equivalents | 37,054,950 | 1,467,667 | - | 38,522,617 |
| **Non-Current Assets** | | | | |
| Investment property | 6,494,251 | 10,712,700 | - | 17,206,951 |
| Property, plant and equipment | 882,036,953 | 371,969,342 | (24,279,488) | 1,229,726,807 |
| Intangible assets | 2,581,192 | 144,831 | - | 2,726,023 |
| Investments | 119,089 | - | - | 119,089 |
| Heritage assets | 826 | 180,521 | - | 181,347 |
| | **1,055,867,073** | **468,849,881** | **(24,279,488)** | **1,500,437,466** |
| **LIABILITIES** | | | | |
| **Current Liabilities** | | | | |
| Other financial liabilities | (276,908) | - | - | (276,908) |
| Finance lease obligation | - | (2,304,855) | - | (2,304,855) |
| Payables from exchange transactions | (108,365,197) | (137,588,211) | - | (245,953,408) |
| VAT Payable | (825,706) | - | - | (825,706) |
| Consumer Deposits | (3,837,256) | (3,518,388) | - | (7,355,644) |
| Employee benefit obligation | (698,125) | - | - | (698,125) |
| Unspent conditional grants and receipts | (21,253,047) | (5,918,732) | - | (27,171,779) |
| Provisions - Landfill site | (703,086) | - | - | (703,086) |
| Accrual - leave & bonus | (15,927,212) | (8,853,233) | - | (24,780,445) |
| **Non-current Liabilities** | | | | |
| Other financial liabilities | (150,942) | - | - | (150,942) |
| Finance lease obligation | - | (2,637,669) | (139,443) | (2,777,112) |
| Employee benefit obligation | (38,042,224) | (21,167,797) | - | (59,210,021) |
| Provisions - Landfill site | (32,753,962) | (251,901) | - | (33,005,863) |
| | **(222,833,665)** | **(182,240,786)** | **(139,443)** | **(405,213,894)** |

# Notes to the Financial Statements

| Figures in Rand | | | | 30 June 2017 |
|---|---|---|---|---|

### 44. Mergers (continued)

| | | | | |
|---|---|---|---|---|
| Accumulated surplus | (832,550,145) | (286,609,095) | 24,418,931 | (1,094,740,309) |
| Housing Development Fund | (483,263) | - | - | (483,263) |
| | **(833,033,408)** | **(286,609,095)** | **24,418,931** | **(1,095,223,572)** |

| Figures in Rand | 30 June 2017 |
| --- | --- |

### 45. Contingencies

| **Pending Legal Cases:** | 30 June 2017 |
| --- | --- |
| G2 (ME) Beleggings (Pty) Ltd vs D Sekhaolelo & LIM 368 Local Municipality - Seeking an order to evict all persons illegally occupying portion 3 of farm Elandsfontein 290, Registration Division K.Q. in Limpopo Province - Amount undetermined at this stage. | 1 |
| NS Bambo vs LIM 368 Local Municipality - Seeking a legal opinion on the transfer of the employment conditions of the erstwhile Municipal Manager of the erstwhile Modimolle Local Municipality. Amount undetermined at this stage. | 1 |
| FT Mtswhene vs LIM 368 Local Municipality - The matter is set down for hearing on 8 September 2017. | 200,000 |
| SD Nawa vs LIM 368 Local Municipality - Mr Nawa was dismissed by the Bargaining Council and has brought a review application at the Labour Court. | 300,000 |
| Mahumani Inc obo Alderson Family vs Erstwhile Modimolle Local Municipality - Allege compensation for expropriation of farms at Donkerpoort Dam. | 4,000,000 |
| KC Joubert vs Erstwhile Modimolle Local Municipality - Labour dispute. No specific amount and awaiting date of hearing. | 600,000 |
| IMATU &I Sithole vs Erstwhile Modimolle Local Municipality - Allege termination of temporary employment and order for re-employement of employees as permanent. The matter is currently referred for review for re-instatement of the applicants. | 4,452,678 |
| CXMi (AL Energy) (Pty) Ltd vs Erstwhile Modimolle Local Municipality - Claim for loss of profit. | 32,000,000 |
| Mellampius vs Erstwhile Modimolle Local Municipality - Municipality must apply for eviction of illegal occupiers at Vaalwater. | 1,800,000 |
| Helen West vs Erstwhile Modimolle Local Municipality - Allege malfunctioning of electricity meters to overcharging. | 19,897 |
| Lesperance Sebenzani Joint vs Erstwhile Modimolle Local Municipality - Alleged termination of contract without following the prescribed | 4,654,022 |
| Arabest 121 CC vs Erstwhile Modimolle Local Municipality - Allege termination of contract without following the proper procedure and or provision of the contract regarding termination. | 35,849,535 |
| NJ Moagi vs Erstwhile Modimolle Local Municipality - Allege claim for defamation of character. | 200,000 |
| Balimi Barul Trading vs Erstwhile Modimolle Local Municipality - Allege claim for service rendered. | 11,854,385 |
| Tlou E Kgolo Construction vs Erstwhile Modimolle Local Municipality - Allege non-payment of outstanding retention. | 425,629 |
| Shirelo David Chauke vs Erstwhile Mookgophong Local Municipality - Municipal official involved in an accident. Claimant instituted against the Municipality. | 350,000 |
| Afriforum vs Erstwhile Mookgophong Local Municipality - Allegations of failure to provide clean running water to the community of Mookgophong. To this extent, the Municipality's legal team (Moloto Attorneys) advised that Council settles the matter and find a way to resolve its water problems. | 400,000 |
| H Fouche vs Erstwhile Mookgophong Local Municipality - The applicant approached the NGHC for an order compelling the respondent to pay monies accrued to the applicant due to the respondent's faliure to provide electricity to the applicant which failure led to the applicant suffering loss of business. | 750,000 |

# Notes to the Financial Statements

| Figures in Rand | 30 June 2017 |
| --- | --- |

**45. Contingencies (continued)**

| | |
| --- | --- |
| Euphoria Home Owners Association vs Erstwhile Mookgophong Local Municipality - The applicants approached the NGHC on an urgent basis for a ruling following the respondent's decision to terminate electricity supply to the applicant. | 500,000 |
| Silas Radebe Trading vs Erstwhile Mookgophong Local Municipality - Vehicle accident between municipal driver and third party. Claiming loss of income. | 870,000 |
| Solomon Nkiwe Ranamane/Modikeng Paul Ranamane vs Erstwhile Mookgophong Local Municipality - Claim for professional work on job evaluations and compilation of contracts. | 800,000 |
| Kekamno Projects (Pty) Ltd vs Erstwhile Mookgophong Local Municipality - Claim for services rendered. | 6,059,800 |
| Eurosum Investments (Pty) Ltd vs Erstwhile Mookgophong Local Municipality - Claim for services rendered. | 150,000 |
| Edge Forensic & Risk Consultants vs Erstwhile Mookgophong Local Municipality - Claim for services rendered. | 646,591 |
| Telkom SA (Pty) Ltd vs Erstwhile Mookgophong Local Municipality - Claim for services rendered. | 221,284 |
| S&R Winders CC vs Erstwhile Mookgophong Local Municipality - Claim for services rendered. | 146,736 |
| Anneline Walkinshaw vs Erstwhile Mookgophong Local Municipality - Damages claim. | 485,000 |
| SMA Attorneys vs Erstwhile Mookgophong Local Municipality - Letter of demand received for alleged subscription for advertising services rendered to the Municipality and were allegedly never paid. | 88,257 |
| Makgoba Kgomo Makgaleng Inc representing Makgoleng Trading CC vs Erstwhile Mookgophong Local Municipality - For alleged non-payment of supply, installation and/or replacement of a traffic light at the intersection of the main road and Pick n Pay. | 23,930 |
| Vosloo vs Erstwhile Mookgophong Local Municipality - Spoilation order against the Municipality. | 170,000 |
| E Makgato & TS Makgato vs Erstwhile Mookgophong Local Municipality - Summons against the Municipality alleging failure to pay for services rendered during September 2014 to June 2015. Parties reached a settlement on the 7 June 2017, wherein the Municipality will effect payment to the legal representative of the Plaintiffs in the sum of R150 000.00 each and every succeeding month liquidating the Plaintiffs' claim, costs and interest. | 1,716,840 |
| Robin Twaddle & Associates vs Erstwhile Mookgophong Local Municipality - Alleged non-payment of outstanding invoice. | 502 |
| GUBIS 85 Solutions (Pty) Ltd vs Erstwhile Mookgophong Local Municipality - Alleged non-payment for services rendered. | 2,387,160 |
| | **112,122,248** |

**Contingent assets**

| **Pending Legal Cases:** | 30 June 2017 |
| --- | --- |
| JF de Beer vs Erstwhile Mookgophong Local Municipality - Court rules in favour of the Municipality with cost to be paid by the applicant after taxation took place. The anticipated amount is yet to be determined. | 556,000 |

| Figures in Rand | 30 June 2017 |
|---|---|

## 46. Risk management

### Liquidity risk

Liquidity risk is the risk that the municipality will encounter difficulty in raising funds to meet commitments associated with financial liabilities.

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The financial liabilities of the municipality are backed by appropriate assets and it has adequate liquid resources. The Council monitors the cash projections.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

| **LIM 368 Municipality** | 30 June 2017 Short-Term Portion | 30 June 2017 Long-Term Portion |
|---|---|---|
| Trade and other payables | 210,308,744 | - |
| Consumer Deposit | 7,331,770 | - |
| Unspent Grants | 7,600,321 | - |
| Borrowings | 150,995 | - |
| Finance leases | 2,652,019 | 574,841 |
| Employee Benefit Obligation | 1,595,831 | 37,346,699 |
| Provisions | 1,469,734 | 71,154,558 |
| | **231,109,414** | **109,076,098** |

### Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

At year end, financial instruments exposed to interest rate risk were as follows:

* Call Deposits
* Notice Deposits
* Development Bank of South Africa loans

### 46. Risk management (continued)

**Credit risk**

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge a obligation and cause the Municipality to incur financial loss.

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. Grants are receivable from higher order levels of government. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply. This increases the redit risk in respect of consumer debtors. The risk of non-payment is managed on an ongoing basis and where practical, services are teminated and procedures applied to recover outstanding amounts owing and an appropriate level of impairment provions for default is maintained.

Trade and other debtors are disclosed net after provisions are made for impairment and bad debts. Trade debtors comprise of a large number of ratepayers, dispersed across different sectors and geographical areas. Credit risk pertaining to trade and other debtors is considered to be moderate due to the diversified nature of debtors and immaterial nature of individual balances.

No trade and other receivables are pledged as security for financial liabilities.

Due to the short term nature of trade and other receivables the carrying value dislosed in note 10 of the financial statements is an approximation of its fair value. Interest on overdue balances are included at 12.65% where applicable.

Financial assets exposed to credit risk at period end were as follows:

| **Financial instrument** | **30 June 2017** |
| --- | --- |
| Non Current Investments | 119,089 |
| Receivables from exchange transactions | 107,957,379 |
| Cash and cash equivalents | 36,262,236 |
| Investments | 900,000 |

The provision for bad debts could be allocated between the different classes of debtors as follows:.

| **LIM 368 Municipality** | 30 June 2017 % | 30 June 2017 |
| --- | --- | --- |
| Electricity | 17 % | 13,889,826 |
| Water | 26 % | 21,463,393 |
| Refuse | 10 % | 8,185,146 |
| VAT | 10 % | 8,364,316 |
| Other | 37 % | 30,934,858 |
| | **100 %** | **82,837,539** |

The risk peraining to unpaid conditional grants and subsidies are considered to be very low. Amounts are receivable from national and provincial government and there is no expectation of counter party default.

### 47. Going concern

We draw attention to the fact that at 30 June 2017, the municipality had accumulated surplus of R 1,128,028,631 and that the municipality's total assets exceed its liabilities by R 1,117,664,133.

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

## Notes to the Financial Statements

| Figures in Rand | 30 June 2017 |
| --- | --- |

### 48. Unauthorised expenditure

| | |
| --- | --- |
| Opening Balance | 124,307,325 |
| Unauthorised expenditure for the current year: Over expenditure on current budget | 19,521,858 |
| Approved by Council or condoned | - |
| Transfer to receivables for recovery | - |
| Grants repaid to National Treasury | - |
| **Unauthorised expenditure awaiting authorisation** | **143,829,183** |

### 49. Fruitless and wasteful expenditure

| | |
| --- | --- |
| Opening Balance | 20,197,953 |
| Fruitless and wasteful expenditure for the current year | 28,010,002 |
| Condoned or written off by Council | - |
| | **48,207,955** |

The movement for 2017 relates to interest on Eskom, Magalies Water, Telkom and SARS payments.

This expenditure is under investigation. The decision whether the expenditure / losses are recoverable, any criminal or disciplinary steps to be taken and material losses recovered or written off is pending the investigation by the Municipal Public Accounts Committee.

### 50. Irregular expenditure

| | |
| --- | --- |
| Opening balance | 111,532,098 |
| Irregular Expenditure - current year | 2,293,576 |
| Less: Amounts condoned | - |
| Less: Amounts recoverable (not condoned) | - |
| | **113,825,674** |

The municipality is investigating possible instances of irregular expenditure which has not been included in the amount disclosed above. The full extent of irregularity would only be known at the conclusion of this investigations. The amount disclosed above may change based on the outcome of these investigations.

### 51. Additional disclosure in terms of Municipal Finance Management Act

**Contributions to organised local government**

| | |
| --- | --- |
| Current year subscription / fee | 1,962,160 |
| Amount paid - current year | - |
| | **1,962,160** |

**Audit fees**

| | |
| --- | --- |
| Current and prior year invoices received | 6,182,307 |
| Amount paid - current year | (600,000) |
| | **5,582,307** |

# Notes to the Financial Statements

| Figures in Rand | 30 June 2017 |
|---|---|

### 51. Additional disclosure in terms of Municipal Finance Management Act (continued)

**PAYE**

| | |
|---|---|
| Current year payroll deductions | 18,801,003 |
| Amount paid - current year | (18,801,003) |
| | - |

**UIF**

| | |
|---|---|
| Current year payroll deductions | 1,825,235 |
| Amount paid - current year | (1,825,235) |
| | - |

**SDL**

| | |
|---|---|
| Current year payroll deductions | 1,340,410 |
| Amount paid - current year | (1,340,410) |
| | - |

**Pension and Medical Aid Deductions**

| | |
|---|---|
| Current year payroll deductions and council contributions | 39,915,698 |
| Amount paid - current year | (39,915,698) |
| | - |

**VAT**

| | |
|---|---|
| VAT receivable | 14,020,397 |

VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the period.

**Councillors' arrear consumer accounts**

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2017:

| 30 June 2017 | Outstanding less than 90 days R | Outstanding more than 90 days R | Total R |
|---|---|---|---|
| Councillor DS Motshwene | - | 2,868 | 2,868 |
| Councillor HP Louw - currently in credit | - | (792) | (792) |
| Councillor MJ Botha | - | 378 | 378 |
| Councillor S Groenewald | - | 306 | 306 |
| Councillor KE Lekalakala | - | 1,234 | 1,234 |
| Councillor SE Kenoshi | - | 33,860 | 33,860 |
| Councillor RJ Mahoro | - | 3,595 | 3,595 |
| Councillor RP Mashaba | - | 548 | 548 |
| Councillor MM Mothabela | - | 2,943 | 2,943 |
| Councillor KN Mabunda | - | 377 | 377 |
| Councillor MD Phele | - | 580 | 580 |
| | **-** | **45,897** | **45,897** |

## Notes to the Financial Statements

| Figures in Rand | 30 June 2017 |
| --- | --- |

### 52. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the financial statements.

Goods and services were procured during the financial period under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

| **Reasons for Deviation** | |
| --- | --- |
| Deviations in terms of Single Provider Procurement, sec 36 (1) (a) (ii) | 706,121 |
| Deviations as a result of Emergency Procurement, sec 36 (1) (b) | 7,519,492 |
| Deviations in minor breaches of procurement, sec 36 (1) (b) | 135,344 |
| | **8,360,957** |

### 53. Distribution Losses

| **Water Losses** | 30 June 2017 |
| --- | --- |
| Average % Loss | 40 % |
| Units purchased (kl) | 4,033,576 |
| Units sold (kl) | 2,330,374 |
| Net loss (kl) | 1,703,202 |
| | **-** |

The distribution losses disclosed for the current period is for 11 August 2017 - 30 June 2017.

Electricity losses were not available at year end for disclosure.

### 54. Commitments

| **Description** | |
| --- | --- |
| Operating expenditure | 143,000 |
| Capital expenditure - movable assets | 154,800 |
| Capital expenditure - material for electricity projects | 5,776,282 |
| | **6,074,082** |

### 55. Related Parties

Related parties relates to Senior Management (Note 33) and Councillors (Note 34).